Appendix G - Coach House Community Asset Transfer Finance Advice

1. The Council has a duty to ensure that best value is achieved from public resources. Community Asset Transfer usually involves a transfer at less than market value and the level of subsidy applied to the asset transfer, will be offset by the social, economic or environmental benefits generated by the transfer.

2. Where an asset is being disposed of at less than market value, the Council will seek to identify the different options for the use of the asset, assess the costs and the benefits associated with each of the options, and should seek to reduce the potential risks involved, while balancing these against the potential benefits to the community.

Financial Background

3. In May 2021 Black South West Network ("BSWN") charity was granted a lease to occupy Coach House building and provide services with an option for a further lease of 35 years on the condition that it would further develop its plans and raise sufficient capital (estimated then at approximately £3.0m) by May 2024, to substantially refurbish and modernise the building to ensure its long-term viable operation. The lease is offered at peppercorn rent, grants BSWN sole control of the building and the Council has no financial liability under the current lease or proposed lease for any costs for the Coach House building.

Financial Overview of Proposals

4. The report seeks Cabinet approval to an Agreement for a lease of 125 years and a related Service Agreement at a peppercorn rent to BSWN, for the management and operation of Coach House. The new lease would replace the existing lease option of 35 years. It would require BSWN to carry out all the essential works previously agreed. However, it no longer imposes the need to demonstrate it has raised the required capital or meet the planning and environmental requirements detailed in the original 35-year lease offer and instead requires BSWN to have secured and expended the necessary capital to complete an agreed and clearly documented schedule of works, this also includes the mandated fire safety measures and other priority repairs to the building. The total value of the works and the capital required to be raised is estimated at a £0.715m.

5. The extended lease is requested due to an increase in cost of the works, now estimated at £4.9m (as outlined in the OBC sent to WECA – Appendix A1). For BSWN to borrow and access grants for the funds required, lenders and funders are requesting as a condition, lease terms of either, over 99 years or 125 years as recommended in this report.

6. In line with the Council's Community Asset Transfer Policy, this proposal is being considered under the exceptional circumstances category "*in exceptional cases, a lease longer than 35 years may be appropriate if supported by a business case that demonstrates special circumstances or requirements from funders or lenders".*

Financial Assessment

7. <u>Capital</u>
   The report indicates that the building is worth £0.7m in its current state based on a valuation done in 2020. A more recent book (October 2023) valuation (not formal valuation) by independent consultant indicates that the value could be as much as £0.5m - £1m, this is however based on the buyer seeking a change of use to residential and after allowance is made for reductions of up to £0.2m - 0.5m for the works needed to make the building compliant with the required energy efficiency standards. These adjustments would be subject to these energy standards being in

force at the time of the sale and would be the same works that the Council would be obliged to carry out if it owned the building.

Therefore, after making allowance for the essential works at the level as outlined, and if the building is used for residential rather than commercial, a net capital value of £0.5m - £1.0m (worst to best case) could be expected on market disposal.

8. Revenue Income
The service estimates that based on a total current square footage of approximately 6000 sq. ft. and in its current state, the building could realise total annual *net* income of approximately £0.005m per annum or £0.625m in potential rental income over the 125-year lifetime of the proposed lease (discounting factors excluded). This is after deductions for overheads and running costs as well as an estimate for essential capital works totalling £1.9m.

By transferring this asset, the council will forego £0.5m to £1m could have otherwise been secured from the sale of this asset on the open market.

Economic & Social Value

9. The report proposes a "blended value proposition", consisting of a blend of economic and social components with estimate the following value (not independently verified), will accrue to the city following the award of the lease:

   a) The monetary benefits to the local economy from the start up and growth of Black and Asian-led enterprises supported by the Centre of circa £0.712m (Gross Value Added) per year or £89m over the life of the lease, and
   b) the less tangible and harder to quantify social and cultural value to be derived from the project over the long term.

10. The GVA is calculated using the GVA for the city calculated by the Office of National Statistics and an adjusted number of organisations based in Bristol supported by the charity. A social and cultural value calculation has also been provided by BSWN. However, this is based on a formula that is not verified and as such excluded from the above.

Financial due diligence

11. Appropriate financial checks have been undertaken to ensure that the BSWN are in good financial health and the (3 year) business plan and funding strategy submitted as part of their application to the CAT Panel have been reviewed and key points outlined below:

   - The costs/expenditure basis was calculated in 2022 and does not consider the recent steep increases in price inflation. The total refurbishment costs include a 10% allowance for contingencies (risks) and 6% for inflation, but these are much less than would be normally expected for a project at this early stage of completion, size, duration, and complexity. There is a risk of cost increases and BSWN own assessment indicate price inflation of 40% and the recent interest rate increase impacting on the cost of borrowing, will impact the overall cost of the project. BSWN have indicated that any increase in costs will be mitigated by a new design approach, a phased approach to the refurbishment as well as further grants and or loans as may be required.

   - Funding Strategy - £4.9m would be acquired using a mixture of grants from multiple funders totalling approximately £4.5m and a mortgage / loan of circa £0.5m, and the cost of both operating the new facility and repay any loans raised. To date, they have received firm promises of grants totalling £0.24m and will use £0.05m from their own reserves and have a strategy for achieving the overall amount needed, to cover the £4.9m cost of the refurbishment. They are £0.470m short of the initial target of £0.715m required to meet the essential works. There is a risk that the strategy does not fully achieve the funding target.

- BSWN have set out a 5-year cash flow analysis indicating that upon completion of the works, the revenue income forecasted will be sufficient to meet the running costs of the building and cover the cost of loans as estimated and overall project. The assumptions regarding likely running cost, and income based expected occupancy appears to be fairly stated. Occupancy levels are modest with reasonable allowance made to accommodate the disturbance expected by the refurbishing works.

- A £8k deficit is expected in year 1, this will be funded by way of an unsecured bank overdraft. By the end of the refurbishment in year 5 it anticipates that a net profit of 8% will be achieved.

12. Where risks or opportunities are identified and or are significant the Council should consider conditions proportionate to the type and scale of asset transfer that protect against the risk that the benefits may not be delivered, the project fails or on the converse unintended financial gains materialise.

Council Budget Implications
In February 2023, Full Council approved the 2023/24 budget which included specific proposals to generate £36m in capital receipts and make £4m revenue savings related to the Council's asset base. As this proposal is effectively a disposal of this council asset, this should also be considered in the context of the 2023/24 budget, as this proposal would reduce the assets that would not be available to meet these targets and those set out in the medium-term financial plan for 2024/25.